

## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

July 8, 2008

To the Township Board  
Backus Township  
Roscommon County, Michigan

We have audited the financial statements of Backus Township for the year ended March 31, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **Auditors' Responsibility under U.S. Generally Accepted Auditing Standards**

We conducted our audit of the financial statements of Backus Township in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances,

makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient, competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financials are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

### **Significant Accounting Policies**

The significant accounting policies are described in Note 1 to the financial statements.

### **Other Communications**

Auditing standards call for us to inform you of other significant issues such as, but not limited to: 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **Internal Control Matters**

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability to

initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the internal control.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider each of the following significant deficiencies to be a material weakness.

#### ***Segregation of Duties***

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the administrative staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected in the normal course.

#### ***Reporting Financial Data***

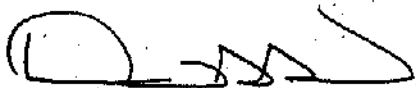
The above definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Organization has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Organization has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The Organization has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other organizations of its size.

#### **Summary**

This information is intended solely for the use of the Board and Management of Backus Township and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the foregoing comments, and would be happy to discuss any of these or other questions that you might have at your convenience.

Respectfully Yours,



**Daniel S. Smith, CPA**

**TOWNSHIP OF BACKUS**  
**ROSCOMMON COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**MARCH 31, 2008**

**TOWNSHIP OFFICIALS**

SUPERVISOR

MARY RIPKE

CLERK

LOUISE NAGY

TREASURER

DARLENE RASE

**TRUSTEES**

LARRY ENOS

MIKE ORZECOWSKI

# TOWNSHIP OF BACKUS

## TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	I
Management's Discussion and Analysis	II - V
<b>FINANCIAL STATEMENTS</b>	
<b><u>Government-Wide Financial Statements</u></b>	
Statement of Net Assets	1
Statement of Activities	2
<b><u>Fund Financial Statements</u></b>	
<b><u>Governmental Funds</u></b>	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance to the Statement of Activities	6
<b><u>Fiduciary Funds</u></b>	
Statement of Fiduciary Net Assets	7
Statement of Changes in Fiduciary Net Assets	8
<b>NOTES TO FINANCIAL STATEMENTS</b>	9 - 16
<b>REQUIRED SUPPLEMENTAL INFORMATION</b>	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	17 - 19
Fire & Ambulance Fund	20
Trash Fund	21

DAN  
SMITH

CERTIFIED PUBLIC ACCOUNTANT

**INDEPENDENT AUDITOR'S REPORT**

July 1, 2008

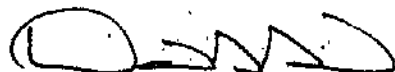
To the Township Board  
Township of Backus

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Backus, Roscommon County, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Backus, Roscommon County, Michigan as of March 31, 2008, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages II - V and budgetary comparison information on pages 17 - 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.



Daniel S. Smith, CPA

# **TOWNSHIP OF BACKUS**

## **TOWNSHIP OF BACKUS MANAGEMENT'S DISCUSSION & ANALYSIS YEAR ENDED MARCH 31, 2008**

This section of the Township of Backus's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2008. Please read it in conjunction with the financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS**

Township assets at March 31, 2008, as reported in the Statement of Net Assets, totaled approximately \$200,136 for governmental activities. Of the total Township assets, approximately \$44,375 represents capital assets net of depreciation.

Overall revenues were approximately \$109,325 (\$2,285 from program revenues and \$107,040 from general revenues). Overall expenses approximated \$119,236.

The Township did not incur any new debt instruments during the year, nor were there any debt service payments. Long-term debt and capital asset activity are addressed further in a subsequent section of this letter.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts, management's discussion & analysis, the basic financial statements, and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present the governmental activities of the Township. The Township does not engage in any business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.



## **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The Statement of Net Assets includes all of the entity's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities; this is one method to measure the Township's financial health or position.

Over time, increases or decreases in an entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of an entity, you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

All of the activities of the Township are reported as governmental activities.

### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

**Governmental Funds:** All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

### **FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

**Net Assets:** The Township's combined net assets decreased approximately \$9,911 during the year ended March 31, 2008 totaling \$198,665.

The decrease is mainly due to increased costs for fire and ambulance services, as well as the trash pickup expense.

## **FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE (CONTINUED)**

**Governmental Funds:** The fund balances for governmental funds decreased approximately \$8,500. This decrease is also due to increased costs for fire, ambulance, and trash services.

## **FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

**General Fund:** This fund is used to record all activities of the Township not required to be recorded in a separate fund. This would primarily include township administration, assessing, zoning, and the costs to operate the township hall. The major sources of revenue for the general fund are from the Township tax base and the revenue sharing from the State of Michigan. The major expenses for this fiscal year include the general operating activities of the Township.

**Fire & Ambulance Fund:** The Fire and Ambulance Fund is used to account for all activities related to fire protection and ambulance services. Revenues are derived primarily from property taxes and totaled \$23,672. Expenditures totaled \$28,641, which paid for contractual services primarily from Denton Township.

**Trash Fund:** The Trash Fund is used to account for all activities related to trash pickup. Revenues are derived from property taxes and totaled \$20,274. Expenditures, totaling \$30,116, were paid to RWS of Northern Michigan for trash pick up services.

The Township has the following non-major fund:

**Building Fund:** This fund is primarily supported by transfers of interest earnings from the other funds. Transfers in totaled \$3,269 and expenditures totaled \$1,181.

## **CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY**

**Capital Assets:** There were no major capital asset purchases over the past year.

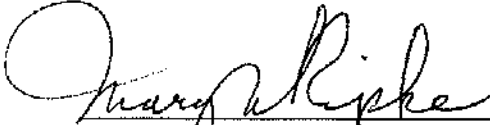
**Long-Term Debt:** The Township has no long-term debt.

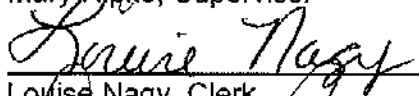
## **KNOWN FACTORS AFFECTING FUTURE OPERATIONS**

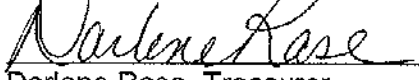
None known.

## CONTACTING TOWNSHIP MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact one of the following Township officials.

  
\_\_\_\_\_  
Mary Ripke, Supervisor

  
\_\_\_\_\_  
Louise Nagy, Clerk

  
\_\_\_\_\_  
Darlene Rase, Treasurer

**TOWNSHIP OF BACKUS  
STATEMENT OF NET ASSETS  
MARCH 31, 2008**

**ASSETS**

**Current Assets:**

Cash	\$ 125,900
Certificate of Deposit	20,000
Delinquent Taxes Receivable	9,077
Due from Fiduciary Fund	784
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Total Current Assets	155,761
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**Noncurrent Assets:**

Land, Buildings & Equipment	84,331
Less, Accumulated Depreciation	(39,956)
	<hr/>
Total Noncurrent Assets	44,375
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<b>Total Assets</b>	<b>200,136</b>
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**LIABILITIES**

**Current Liabilities:**

Payroll Withholding Taxes	1,471
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<b>Total Liabilities</b>	<b>1,471</b>
	<hr/>

**NET ASSETS**

**Net Assets:**

Net Assets, Unrestricted	92,819
Net Assets, Restricted	61,471
Investment in Capital Assets	44,375
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<b>Total Net Assets</b>	<b>\$ 198,665</b>
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See accompanying notes to the financial statements

**TOWNSHIP OF BACKUS  
STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
MARCH 31, 2008**

	<u>P R O G R A M   R E V E N U E S</u>				<u>NET REVENUE (EXPENSES) AND CHANGE IN NET ASSETS</u>
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRI- BUTIONS</u>	<u>CAPITAL GRANTS AND CONTRI- BUTIONS</u>	
<b>GOVERNMENTAL ACTIVITIES:</b>					
Township Administration	\$ (40,837)	\$ 1,320	\$ -	\$ -	\$ (39,517)
Assessing	(6,037)				(6,037)
Buildings and Grounds	(8,414)	600			(7,814)
Zoning/Building/Land Use	(3,816)	365			(3,451)
Fire and Ambulance	(28,641)				(28,641)
Trash Pickup	(30,116)				(30,116)
Unallocated Depreciation	(1,375)				(1,375)
<b>Total</b>	<b>(119,236)</b>	<b>2,285</b>	<b>-</b>	<b>-</b>	<b>(116,951)</b>
<b>GENERAL REVENUES</b>					
Property Taxes					59,202
State Shared Revenue					24,080
Swamp Tax					15,335
Interest					5,461
Other					2,962
<b>Total General Revenues</b>					<b>107,040</b>
<b>Change in Net Assets</b>					<b>(9,911)</b>
<b>Net Assets - Beginning of Year</b>					<b>208,576</b>
<b>Net Assets - End of Year</b>					<b>\$ 198,665</b>

See accompanying notes to the financial statements

TOWNSHIP OF BACKUS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2008

	<u>MAJOR GOVERNMENTAL FUNDS</u>			<u>NON-MAJOR FUND</u>	
	<u>GENERAL</u>	<u>FIRE &amp; AMBULANCE</u>	<u>TRASH</u>	<u>BUILDING</u>	<u>TOTAL</u>
<b>ASSETS</b>					
Cash	\$ 64,457	\$ 21,623	\$ 33,956	\$ 5,864	\$ 125,900
Certificate or Deposit	20,000	-	-	-	20,000
Delinquent Taxes Receivable	2,393	3,459	3,225	-	9,077
Due From Trash Fund	792	-	-	-	792
Due from Other Funds	784	-	-	-	784
Total Assets	88,426	25,082	37,181	5,864	156,553
<b>LIABILITIES AND FUND EQUITY</b>					
<b>Liabilities:</b>					
Payroll Tax Withholdings	1,471	-	-	-	1,471
Due to General Fund	-	-	792	-	792
Total Liabilities	1,471	-	792	-	2,263
<b>Fund Equity:</b>					
Fund Balance - Undesignated	74,818	25,082	36,389	5,864	142,153
Fund Balance - Designated	12,137	-	-	-	12,137
Total Fund Equity	86,955	25,082	36,389	5,864	154,290
Total Liabilities and Fund Equity	\$ 88,426	\$ 25,082	\$ 37,181	\$ 5,864	\$ 156,553

See accompanying notes to the financial statements.

**TOWNSHIP OF BACKUS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2008**

<b>TOTAL FUND BALANCE - GOVERNMENTAL ACTIVITIES PER THE BALANCE SHEET - PAGE 3</b>	<b>\$ 154,290</b>
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Amounts reported for governmental activities in the Statement of  
Net Assets (page 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not used in the funds	<u>44,375</u>
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<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES PER THE STATEMENT OF NET ASSETS - PAGE 1</b>	<b><u>\$ 198,665</u></b>
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See accompanying notes to the financial statements

**TOWNSHIP OF BACKUS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED MARCH 31, 2008**

	<b><u>MAJOR FUNDS</u></b>				
	<b><u>GENERAL</u></b>	<b><u>FIRE &amp; AMBUL.</u></b>	<b><u>TRASH</u></b>	<b><u>BUILDING FUND</u></b>	<b><u>TOTAL</u></b>
<b>REVENUES</b>					
Property Taxes	\$ 15,921	\$ 23,007	\$ 20,274	\$ -	\$ 59,202
State Grants:					
Michigan Sales tax	24,080	-	-	-	24,080
Swamp Tax	15,335	-	-	-	15,335
Charges for Services:					
Building Agency Revenue	-	-	-	-	-
Summer tax Collection	1,320	-	-	-	1,320
Permits	365	-	-	-	365
Rents	600	-	-	-	600
Interest Income - General Fund	4,796	665	-	-	5,461
Miscellaneous	2,962	-	-	-	2,962
<b>Total Revenues</b>	<b>65,379</b>	<b>23,672</b>	<b>20,274</b>	<b>-</b>	<b>109,325</b>
<b>EXPENDITURES</b>					
General Government	57,923	-	-	-	57,923
Ambulance & Fire Services	-	28,641	-	-	28,641
Trash Pick Up Services	-	-	30,116	-	30,116
Building Repairs	-	-	-	1,181	1,181
<b>Total Expenditures</b>	<b>57,923</b>	<b>28,641</b>	<b>30,116</b>	<b>1,181</b>	<b>117,861</b>
Fund Transfers	(3,269)	-	-	3,269	-
Excess (Deficiency) of Revenues over Expenditures & Transfers	4,187	(4,969)	(9,842)	2,088	(8,536)
Fund Balance - Beginning of Year	82,768	30,051	46,231	3,776	162,826
Fund Balance - End of Year	<u>\$ 86,955</u>	<u>\$ 25,082</u>	<u>\$ 36,389</u>	<u>\$ 5,864</u>	<u>\$ 154,290</u>

See accompanying notes to the financial statements.



**TOWNSHIP OF BACKUS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2008**

<b>NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS PER THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - PAGE 5</b>	<b>\$ (8,536)</b>
Amounts reported for governmental activities in the Statement of Activities (page 2) are different because:	
Depreciation expense is recorded in the statement of activities, but not in the governmental fund financial statements	<u>(1,375)</u>
<b>CHANGES IN NET ASSETS - GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES - PAGE 2</b>	<b>\$ <u>(9,911)</u></b>

See accompanying notes to the financial statements

**TOWNSHIP OF BACKUS  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
MARCH 31, 2008**

	<b>ASSETS</b>	
Cash		\$ 784
		<u>784</u>
	<b>LIABILITIES</b>	
Due to General Fund		784
		<u>784</u>
	<b>NET ASSETS</b>	
Net Assets		\$ -
		<u>-</u>

See accompanying notes to the financial statements

**TOWNSHIP OF BACKUS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED MARCH 31, 2008**

**RECEIPTS**

Property Taxes and Interest	\$ 320,305
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**DISBURSEMENTS**

Property Taxes and Interest	320,305
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Change in Fiduciary Net Assets	-
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<b>Fiduciary Net Assets - Beginning of Year</b>	-
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<b>Fiduciary Net Assets - End of Year</b>	<b>\$ -</b>
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See accompanying notes to the financial statements

**TOWNSHIP OF BACKUS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE A: ENTITY**

The Township of Backus is a general law township of the State of Michigan located in Roscommon County, Michigan. It operates under an elected board and provides service to its residents in many areas including law enforcement, community enrichment and human services. The criteria established for the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Backus Township. Fire and Ambulance services are provided under contractual agreements with Denton and Richfield Townships.

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

The accounting and reporting framework and the more significant accounting principles and practices of the Township of Backus are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of the Township of Backus conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2003, the Township of Backus adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

**TOWNSHIP OF BACKUS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION**

***Government-Wide Financial Statements***

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information for the Township as a whole, excluding fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. At this time, the Township has no business-type activities.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included as program revenues are reported as general revenues.

***Fund Financial Statements***

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**TOWNSHIP OF BACKUS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major governmental funds:

*General Fund* - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, State revenue sharing, and other inter-governmental revenues.

*Fire & Ambulance Fund* – This fund is used to account for all financial transactions related to the Township's fire protection and ambulance services. Revenues are derived primarily from property taxes.

*Trash Fund* – This fund is used to account for all financial transactions related to the Township's trash pickup services. Revenues are derived primarily from property taxes.

***Other Funds***

*Fiduciary Funds* - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

**TOWNSHIP OF BACKUS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)**

***Government-Wide Financial Statements***

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Township departments. Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

***Governmental Fund Financial Statements***

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2007, are recorded as revenue in the current year. The Township's taxable value for the 2007 tax year totaled \$11,995,032.

**TOWNSHIP OF BACKUS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The tax rates for the year ended March 31, 2008, were as follows:

<b>PURPOSE</b>	<b>RATE/ASSESSED VALUATION</b>
General	1.3155 mills per \$1,000
Fire & Ambulance	1.9012 mills per \$1,000
Trash	\$100 per homestead property \$50 per non-homestead property

**BUDGET**

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets are adopted on March 31 of each year. There are no carryover budget items. During the year ended March 31, 2008, no over-expenditures were noted.

**CAPITAL ASSETS AND DEPRECIATION**

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25 – 40
Improvements, other than buildings	10 – 20
Machinery and equipment	5 – 10
Vehicles	5 – 10
Infrastructure	20 - 40



**TOWNSHIP OF BACKUS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Land, construction in progress, library books and periodicals are not depreciated.

With respect to asset improvements, costs over \$1,000 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or
5. In the case of streets and roads, if the work done impacts the "base" structure.
6. Other wise, the cost should be expensed as repair and maintenance.

For information describing capital assets, see Note E.

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND  
DISCOUNTS/PREMIUMS**

In the government-wide financial statements, outstanding long-term debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

**USE OF ESTIMATES**

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as such, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

**NOTE C: CASH AND INVESTMENTS**

Cash consists of bank accounts or securities with original maturities of 90 days or less.

All cash deposits are maintained in financial institutions in Northern Michigan. The Township's deposits are categorized to give an indication of the level of risk assumed by the Township at fiscal year-end. The categories are described as follows:

**TOWNSHIP OF BACKUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2008**

**NOTE C: CASH AND INVESTMENTS (CONTINUED)**

Category 1 – Insured or collateralized with securities held by the Township or by its agent in the Township's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.

Category 3 – Uncollateralized.

	BANK BALANCE	1	CATEGORY 2	3	CARRYING AMOUNT
Major Funds	\$ 120,036	\$ 100,000	\$ -	\$ 20,036	\$ 120,036
Non-Major Funds	5,864	-	-	5,864	5,864
Total	<u>\$ 125,900</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 25,900</u>	<u>\$ 125,900</u>
Trust & Agency	\$ 784	\$ 784	\$ -	\$ -	\$ 784

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's **investments** are as follows:

Category 1 - Insured or securities held by the Township or the Township's agent in the Township's name.

Category 2 - Uninsured with securities held by the counter party's trust department or its agent in the Township's name.

Category 3 - Uninsured with securities held by the counter party's trust department or agent but not in the Township's name.

	1	CATEGORY 2	3	CARRYING AMOUNT
Major Funds	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>

**NOTE D: DUE FROM/TO OTHER FUNDS**

Due From/To Other Funds represents \$784 from the Fiduciary fund and \$792 collected in the trash fund that had not been distributed at March 31, 2008, to the various funds as follows:

General Fund	<u>\$1,576</u>
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**TOWNSHIP OF BACKUS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE E: CAPITAL ASSETS**

	<u>CAPITAL ASSETS NOT DEPRECIATED</u>	<u>CAPITAL ASSETS DEPRECIATED</u>		
	<u>Land &amp; Improv.</u>	<u>Buildings</u>	<u>Furniture and Equipment</u>	<u>Totals</u>
<i>Governmental Activities</i>				
<i>Capital Assets</i>				
Balance, April 1, 2007	\$ 10,000	\$ 55,000	\$ 19,331	\$ 84,331
Increases	-	-	-	-
Decreases	-	-	-	-
Balance, March 31, 2008	<u>10,000</u>	<u>55,000</u>	<u>19,331</u>	<u>84,331</u>
<i>Accumulated Depreciation</i>				
Balance, April 1, 2007	-	19,250	19,331	38,581
Increases	-	1,375	-	1,375
Decreases	-	-	-	-
Balance, March 31, 2008	<u>-</u>	<u>20,625</u>	<u>19,331</u>	<u>39,956</u>
<i>Capital Assets, Net</i>	<u>\$ 10,000</u>	<u>\$ 34,375</u>	<u>\$ -</u>	<u>\$ 44,375</u>

**NOTE F: LONG-TERM DEBT**

As of March 31, 2008, the Township had no long-term debt.

**NOTE G: DESIGNATED FUND BALANCE/NET ASSETS**

The Township has designated fund balance in the amount of \$12,137. The designations are \$10,063 for future road expenditures and \$2,074 for park expenditures.

**NOTE H: CONTINGENCIES**

**INSURANCE**

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

**TOWNSHIP OF BACKUS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUES</b>				
State Grants:				
State Shared Revenue	\$ 19,900	\$ 19,900	\$ 24,080	\$ 4,180
Swamp Tax	15,400	15,400	15,335	(65)
Property Taxes	25,300	25,300	15,921	(9,379)
Charges for Services:				
Summer Tax Collection	1,400	1,400	1,320	(80)
Permits	500	500	365	(135)
Rents	600	600	600	-
Miscellaneous Revenue	600	600	2,962	2,362
Interest Income	700	700	4,796	4,096
<b>Total Revenues</b>	<b>64,400</b>	<b>64,400</b>	<b>65,379</b>	<b>979</b>
<b>EXPENDITURES</b>				
<b>GENERAL GOVERNMENT</b>				
<b>Township Board:</b>				
Salaries	2,100	2,100	2,070	30
Payroll Taxes	-	2,200	2,178	22
Professional Fees	1,700	1,700	1,700	-
Communications	400	400	399	1
Workers Compensation	400	400	395	5
Printing and Publishing	-	-	81	(81)
Supplies	-	-	44	(44)
Miscellaneous	1,700	1,700	1,855	(155)
<b>Total Township Board</b>	<b>6,300</b>	<b>8,500</b>	<b>8,722</b>	<b>(222)</b>
<b>Township Supervisor:</b>				
Salary	7,000	7,000	6,920	80
Communications	600	600	622	(22)
Transportation	100	100	235	(135)
Operating Supplies	100	100	99	1
Miscellaneous	900	900	942	(42)
<b>Total Supervisor</b>	<b>8,700</b>	<b>8,700</b>	<b>8,818</b>	<b>(118)</b>
<b>Election:</b>				
Contract Labor	1,500	1,500	1,434	66
Office supplies	700	700	805	(105)
Transportation	100	100	30	70
<b>Total Election</b>	<b>\$ 2,300</b>	<b>\$ 2,300</b>	<b>\$ 2,269</b>	<b>\$ 31</b>

**TOWNSHIP OF BACKUS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>Assessor:</b>				
Contractual Services	\$ 5,900	\$ 5,900	\$ 5,424	\$ 476
Supplies	-	700	613	87
<b>Total Assessor</b>	<b>5,900</b>	<b>6,600</b>	<b>6,037</b>	<b>563</b>
<b>Clerk:</b>				
Salary	8,600	8,600	8,550	50
Communication	600	600	543	57
Office Supplies	100	500	406	94
Transportation	-	450	408	42
Education	400	400	376	24
Miscellaneous	-	-	70	(70)
<b>Total Clerk</b>	<b>9,700</b>	<b>10,550</b>	<b>10,353</b>	<b>197</b>
<b>Board of Review:</b>				
Contract Labor	600	600	600	-
Printing & Publishing	100	100	37	63
<b>Total Board of Review</b>	<b>700</b>	<b>700</b>	<b>637</b>	<b>63</b>
<b>Treasurer:</b>				
Salary	8,200	8,200	8,197	3
Office Supplies	700	700	664	36
Transportation	200	200	118	82
Communication	200	200	160	40
Miscellaneous	700	700	658	42
<b>Total Treasurer</b>	<b>10,000</b>	<b>10,000</b>	<b>9,797</b>	<b>203</b>
<b>Township Hall and Grounds:</b>				
Insurance	4,400	4,400	4,350	50
Utilities	2,100	2,100	2,089	11
Repair and Maintenance	1,900	1,900	470	1,430
Contracted Labor	-	-	224	(224)
Parks	-	-	100	(100)
<b>Total Township Hall and Grounds</b>	<b>\$ 8,400</b>	<b>\$ 8,400</b>	<b>\$ 7,233</b>	<b>\$ 1,167</b>

**TOWNSHIP OF BACKUS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>Zoning/Land Use:</b>				
Wages	\$ 2,900	\$ 2,900	\$ 2,872	\$ 28
Per Diem - Board	-	700	700	-
Legal	200	200	123	77
Supplies	200	200	46	154
Education	100	100	75	25
Total Zoning/Land Use	3,400	4,100	3,816	284
<b>Street Lights</b>	300	300	241	59
<b>Total General Government</b>	55,700	60,150	57,923	2,227
Transfer to the Building Fund	-	3,300	3,269	31
Total Expenditures and Transfers	55,700	63,450	61,192	2,258
Excess (Deficiency) of Revenues Over Expenditures and Transfers	8,700	950	4,187	3,237
<b>Fund Balance - Beginning of Year</b>	82,768	82,768	82,768	-
<b>Fund Balance - End of Year</b>	<u>\$ 91,468</u>	<u>\$ 83,718</u>	<u>\$ 86,955</u>	<u>\$ 3,237</u>

**TOWNSHIP OF BACKUS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FIRE & AMBULANCE FUND  
YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUES</b>				
Property Taxes	\$ 23,000	\$ 23,000	\$ 23,007	\$ 7
Interest	-	-	665	665
Total Revenues	23,000	23,000	23,672	672
<b>EXPENDITURES</b>				
Ambulance & Fire Expense	29,000	29,000	28,641	359
Total Expenditures	29,000	29,000	28,641	359
Excess (Deficiency) of Revenues Over Expenditures	(6,000)	(6,000)	(4,969)	1,031
Fund Balance - Beginning of Year	30,051	30,051	30,051	-
Fund Balance - End of Year	\$ 24,051	\$ 24,051	\$ 25,082	\$ 1,031

**TOWNSHIP OF BACKUS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
TRASH FUND  
YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUE</b>				
Property Taxes	\$ 20,000	\$ 20,000	\$ 20,274	\$ 274
Total Revenue	20,000	20,000	20,274	274
<b>EXPENDITURES</b>				
Trash Pick-Up Services	31,000	31,000	30,116	884
Total Expenditures	31,000	31,000	30,116	884
Excess (Deficiency) of Revenues Over Expenditures	(11,000)	(11,000)	(9,842)	1,158
<b>Fund Balance - Beginning of Year</b>	46,231	46,231	46,231	-
<b>Fund Balance - End of Year</b>	<u>\$ 35,231</u>	<u>\$ 35,231</u>	<u>\$ 36,389</u>	<u>\$ 1,158</u>